

**CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES**

**Financial Statements
(With Independent Auditor's Report Thereon)**

**Independent Auditor's Report on Compliance and on
Internal Control over Financial Reporting**

Schedule of Findings

June 30, 2015 and 2014



**Shull, Schrum, McClafin
& Co., Inc.**
certified public accountants

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

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CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Board of Trustees Report

March 1, 2015

To the Honorable Mayor, Members of the Council, and Citizens of the City of Indianola,

This report consists of the board and management's representations concerning the finances of Indianola Municipal Utilities. Consequently, the board and management assume full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, the board and management have established a comprehensive internal control framework that is designed both to protect the utility's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of these financial statements. Because the cost of internal controls should not outweigh their benefits, the utility's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. The board and management assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Indianola Municipal Utilities' financial statements have been audited by Shull & Co., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements for the fiscal year ended June 30, 2015 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that Indianola Municipal Utilities' financial statements for the fiscal year ended June 30, 2015 are fairly presented. The independent auditor's report is presented as the first component of the financial section of this report.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statement in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it.

Profile of the Utility Board of Trustees

The City of Indianola, incorporated in 1864 and the county seat of Warren County, is located in the central part of the state approximately 17 miles south of the state capital, Des Moines. Indianola is considered part of the Des Moines MSA, one of the top growth areas in the state. The City of Indianola encompasses an area of approximately nine square miles and a population of 15,108. The city provides electric, water, and telecommunications services as a discretely reported component unit under the management and control of a board of trustees. The board operates these three utilities as Indianola Municipal Utilities (IMU). This system of management and control was established by a vote of the electorate and implemented by city ordinance in 1973 as provided in Iowa Code.

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Board of Trustees Report - Continued

Electric and water utility territories are fixed in that any new territory expansions must be negotiated and purchased from incumbent service providers. The telecommunications utility has no fixed territory and leases fiber optic lines to customers and has a licensing arrangement with a private telecom service provider.

Utility board. Utility boards are vested with the authorities of the city in relation to these utilities, with the exceptions that the board may not certify taxes to be levied, pass ordinances or amendments, or issue general obligation or special assessment bonds. Real property is held in the name of the city, but the utility board has all the powers and authorities of the city with respect to the acquisition by purchase, condemnation, or otherwise, lease, sale, or other disposition of such property, and the management, control, and operation of the same, subject to provisions of any outstanding obligations which are payable from the revenues of the city utility. Separate funds are maintained for each utility. Utility fund balances deemed by the board of trustees to be in excess of the needs of a utility may be transferred to any other fund, upon approval by the city council. The five trustees are appointed by the mayor and approved by the city council, each serving staggered six-year terms.

Management. The board of trustees appoints a general manager to oversee the day-to-day management of the electric, water, and telecommunications utilities. The general manager appoints the employees of each of these utilities, carries out the policies of the board of trustees, and performs other duties as determined by resolution of the board.

Other officials. A director of finance serves as the chief accounting officer for all city services, including those provided by IMU, and submits budget and year-end financial reports required of the utility. There is also an appointed clerk, which serves as the secretary of the board of trustees and as such has custodial duties prescribed in Iowa Code, local ordinances, board resolutions, and by management discretion. An appointed treasurer serves as custodian for all funds. An attorney is also appointed to represent the city, its boards, and its commissions and performs certain functions prescribed in local ordinances and in the Iowa Code.

Budgeting process. The annual budget serves as the foundation for the utilities' financial planning and control. The budget process, in general, is as follows:

- The general manager submits a 5-year capital improvement project budget to the board of trustees for review and adoption.
- Departments submit operating budget requests to the general manager.
- The general manager compiles the annual budgets for review.
- The board of trustees adopts budgets for the electric, water, and telecommunications utilities. These are compiled with the City of Indianola's governmental services' budgets and that of the sewer utility for presentation to the public in publication form.
- The city council sets and conducts a public hearing on the budget.
- Any proposed changes to the IMU budget are referred back to the board of trustees.
- The city council adopts the overall budget and the budget is filed with the county auditor and the State of Iowa no later than March 15 of each year.

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Board of Trustees Report - Continued

The State of Iowa limits expenditures to the total amount budgeted by function. Expenditures for individual departments or services may exceed those budgeted as long as total expenditures by function are not exceeded. Budget amendments are permitted under provisions similar to the adoption of the original budget. Budget-to-actual comparisons are provided in this report on a cash accounting basis, which is consistent with the city's financial basis of accounting.

Cash management policies and practices. The board of trustees annually reviews and adopts an investment policy outlining the roles and responsibilities in making investments using available cash balances. The clerk and treasurer are jointly responsible for the investment of funds under that policy, with oversight by the board of trustees.

Cash temporarily idle during the year was invested in bank deposits or money market funds, repurchase agreements, and the Iowa Public Agency Investment Trust. These temporary cash deposits were maintained in stable value investments with a June 30, 2015 rate of return of 0.35%.

The utility invests reserve funds (those not intended to be expended within 365 days) in a portfolio with the assistance of an investment advisement firm. The investment portfolio includes mortgage-backed securities, obligations of the U.S. Treasury or its agencies, and cash held in a public entity money market fund. At fiscal year end, the effective duration of the portfolio was 2.3 years with a current yield of 2.15%. Reported returns may include changes in fair value during the year but do not necessarily represent continuing returns; nor is it always possible to realize changes in fair value, especially in the case of temporary changes for securities the city intends to hold until maturity.

Additional information on the utility's cash management can be found in notes to the financial statements.

Risk management. Indianola Municipal Utilities participates in the Iowa Communities Assurance Pool (ICAP), a local government risk-sharing pool with over 500 members throughout the state of Iowa. The utility makes annual contributions to ICAP recorded as disbursements from its operating funds for automobile, property, casualty, and liability coverage. The utility maintains reserve funds to meet deductibles as they occur. The utility also participates as a member of the Iowa Municipal Workers' Compensation Association (IMWCA) and pays premiums to the association on an annual basis from its operating funds. The utility purchases boiler and machinery insurance from a private carrier. In addition, the utility has an ongoing safety program to monitor its facilities and employees to maintain a safe environment for employees and the public. Additional information on Indianola Municipal Utilities' risk management activity can be found in notes to the financial statements.

Pension and other post-employment benefits. Indianola Municipal Utilities provides pension benefits for its employees. These benefits are provided through a statewide plan managed by the Iowa Public Employees Retirement System. Indianola Municipal Utilities has no obligation in connection with employee benefits offered through this plan beyond its periodic payments based on earned compensation by active employees.

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Board of Trustees Report - Continued

IMU also provides post-retirement access to its medical insurance plan until age 65 as required under Iowa Code. Retirees contribute an amount equal to the premium amount charged to city departments and active employees on a pay-as-you-go basis.

IMU maintains a health reimbursement arrangement (HRA) for the benefit of employees. The utility makes a fixed annual commitment that employees may use to offset premium contributions or cash payments for any medical expense allowed under IRS Code. If the employee does not utilize the full amount provided in the fiscal year, the balance is carried forward to the following year and is available in any future period, including after retirement. Disbursements are paid out of operating funds and not held in trust. They are, however, accounted for in a sub-fund that is separate from other operating funds for budgetary control.

Additional information on the utility's pension arrangements and other post-employment benefits can be found in notes to the financial statements.

Closing

State law and city ordinance require municipal utility boards to provide the city council an annual report with complete financial statements. State law also requires the city to publish within nine months of the close of each fiscal year a complete set of financial statements, including that of municipal utilities as a component unit. State law requires that financial statements must be audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to these requirements, we hereby issue this report for Indianola Municipal Utilities for the fiscal year ending June 30, 2015.

Chris Longer
Program Coordinator

Christopher DesPlanques
Director of Finance & Administrative Services

CITY OF INDIANOLA, IOWA
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Operational Review

Utility operations are divided into departments, all of which work toward the common goal of providing superior services to the citizens of Indianola. The IMU Board of Trustees annually adopts a Strategic Plan complete with service objectives, operating strategies, and annual goals. Performance towards plan objectives is reported on a quarterly basis.

The following summary provides a brief review of the various departmental activities and accomplishments in FY 2015.

- **Electric Utility.** The electric utility provides reliable service by purchasing wholesale energy for the community as a whole, receiving it over the transmission system, generating electricity within Indianola as needed, and distributing it safely to customers. Significant progress toward implementing operational strategies include:
 - Completed the Hwy 65/69 Conversion Project
 - Completed the W Hwy 92/I-35 Transmission Relocation Project
 - Completed the W Hwy 92 Transmission Relocation Project
 - Continued re-designing the W Hwy 92 Distribution Relocation project and re-negotiating IDOT reimbursement estimates due to continued changes to IDOT roadway specifications
 - Installed wiring and new decorative street lights on The Square
 - Construction commenced on the W. Hwy 92 Distribution Relocation

- **Water Utility.** The water utility provides reliable water service by pumping it from wells, treating it, keeping enough in storage to meet daily needs, and distributing it to customers. Significant progress towards implementing operational strategies include:
 - Contracted for engineering services for proactive maintenance and planning for improvements at the water plant
 - Completed work on the aerator replacement project at the water plant
 - Relocated a section of water main for the N. Hwy 65/69 highway relocation project
 - Completed work on the W. IA Ave. and Ann Parkway water main projects; drafted supplemental agreement for a small amount of restoration work
 - Completed repairs to Well #12
 - Demolished the old water treatment plant
 - Started design work on the IA Ave. water main project
 - Designed and contracted to relocate a water main at W. Hwy 92 and Y Street

- **Communications Utility.** The communications utility provides the infrastructure that transmits affordable, competitive, and technologically advanced telecommunications service for both retail and other public uses. Telephone and Internet services are offered to commercial customers through a contractual private/public partnership. Significant progress towards implementing operational strategies include:

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Operational Review - Continued

Communications Utility – Continued:

- Continued to connect new residential & commercial customers and address operational issues with MCG
 - Approved plans to proceed with the North Howard extension
 - Completed cutovers from older aerial fiber to underground fiber associated with the Hwy 65/69 electric project
 - Worked on conceptual plans with Verizon to extend fiber to small-cellular sites on power poles in congested areas
 - Relocated the Iowa Network Services feed connection at the IMU Westside Substation
 - Installation of the fiber cabinet and fiber strands (into existing conduit) was completed for the North Howard project
 - Worked to finalize plans for W. Hwy 92 project
- **Administration.** All three utilities are administered by a combination of the IMU Board of Trustees and their staff, services provided by the City of Indianola through cost-sharing arrangements, and third-party contractors.

Public works activities primarily involve co-managing the public right of way. IMU also supports economic development and community betterment activities. Third, there are utility-specific services such as technical activities, safety, and utility programming. Last are the governance and professional services associated with oversight, regulatory actions, general management, human resources, fiduciary controls, public notifications and information systems, and legal compliance & risk management.

Public Works:

- Continued removing IMU poles from underground conversion areas
- Mediacom bored conduit in priority areas; cable installation is progressing
- Century Link installed facilities in its existing conduit north of The Square; IMU removed the poles

Economic Development & Community Betterment:

- Continued EMERGE Hub planning with design team
- Completed IMU Partners Program scope of management services agreement with the IDA for FY 2015
- Simpson College planning to dedicate Dunn Library space for the EMERGE@Simpson program (Gerald R. Edwards Center) and allocate that endowment for continuing on-campus support

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Operational Review - Continued

Economic Development & Community Betterment - Continued:

- A prospect working with the IDA, and another with WCEDC, approached IMU about developing a local co-working, data center, and business incubator center
- Continued involvement with the WCEDC Business Retention and Expansion Committee
- Planning commenced for extending utilities into Summercrest Hills Plat 5
- IMU staff helped WCEDC plan and hold its business awards event at Simpson College

Technical Services & Programs

- Held meeting of IMU Partners, reviewed draft program guides, and discussed potential FY 2015 activities
- Worked with MCG on new marketing materials
- Continued participating as a member of the design team on an IAMU community solar (proposed to US Dept. of Energy, local match by the IA Energy Center) grant project
- Worked to develop an advertising video in conjunction with a project spearheaded by the Indianola Chamber
- Developed and distributed a press release pertaining to MCG's announcement that "Gigabit" service will be available on the IMU network in January, 2015
- Received designation (again) as having "Best Practices" by the Iowa Municipalities Workers' Compensation Association
- Compiled information for, and revised, the Electric Transmission and Distribution Systems Inspection and Maintenance Plan
- IMU received a Hazard Recognition Award from the Iowa-Illinois Safety Council
- The Indianola Sustainability Committee began research and work on the STAR certification process for Indianola

Governance and Professional Services:

- Implemented a Cost of Power Adjustment for bills issued starting July 1, 2014
- Conducted required public meeting pertaining to MISO filings for transmission ownership credits
- Prepared information pertaining to wholesale energy contract terms; received a presentation from NMPP Energy staff about wholesale energy challenges
- Drafted and reviewed the annual Strategic Plan, information about the status of Underground & Voltage conversion projects, and fiber network extension planning
- Performed analysis of past Annual Disclosure activities and made appropriate filings
- Analyzed options and refinanced Electric Utility debt
- Participated with MMTG in Federal Energy Regulatory Commission filings related to rates of return on transmission assets
- Amended the Management Guide as part of structural changes to the Indianola Health Plan; included vision and dental insurance



Shull, Schrum, McClafin & Co., Inc.

certified public accountants

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Indianola Municipal Utilities
Indianola, Iowa

Report on the Financial Statements

We have audited the accompanying statement of net position of the Indianola Municipal Utilities, a component unit of the City of Indianola, Iowa, as of June 30, 2015 and 2014 and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related Notes to the Financial Statements, which collectively comprise the Utilities' financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards of the United States of America and the standards applicable to financial audits contained in, Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utilities' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

1111 North Jefferson
Indianola, Iowa 50125
515-961-2571 • Fax 515-961-4253

133 W. Washington
Osceola, Iowa 50213
641-342-2611 • Fax 641-342-2746

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Indianola Municipal Utilities as of June 30, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As disclosed in Note 13 to the financial statements, the City of Indianola adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions. Our opinions are not modified with respect to this matter.

Other Information

The other information, the Utilities Management's Discussion and Analysis, the budgetary comparison information, the Schedule of the Utilities' Proportionate Share of the Net Pension Liability and the Schedule of Utilities Contributions on pages 12 through 18 and 45 through 15 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards we have also issued our report dated February 19, 2016 on our consideration of the Indianola Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Indianola Municipal Utilities' internal control over financial reporting and compliance.

Stull, Schrum, McClellan & Co., Inc.

February 19, 2016

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Management Discussion and Analysis (MD&A)

Indianola Municipal Utilities offers readers of its financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in this report.

2015 Financial Highlights

- Indianola Municipal Utilities has ending cash and investment balances totaling \$7,343,203 to meet the utility's ongoing obligations to citizens, creditors, for capital reinvestment in utility operations, and for emergency repairs.
- The utility annually uses prior years' positive cash flow and balances to reinvest in capital assets, as detailed in the "Long term financial planning" section of this MD&A.
- As reported on the Statement of Cash Flows, total cash and investment balances decreased by \$1,342,631.
- Net cash provided by operating activities was \$2,047,610, which decreased by \$728,392 compared with the prior year.
- At the end of the current fiscal year, unrestricted and undesignated net assets totaled \$9,197,627, which decreased by \$1,892,482 over the prior year.
- The utility's total liabilities decreased \$677,631 during the current fiscal year. Current liabilities increased by \$83,403, primarily from an increase in accounts payable.

Using this Annual Report

The annual report consists of a series of financial statements as well as other requirements as follows:

Management Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the government's financial activities.

The Financial Statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows. These statements provide information about the activities of the utility as a whole and present an overall view of the utility's finances.

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Management Discussion and Analysis (MD&A) - Continued

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Basis of accounting. Indianola Municipal Utilities maintains its financial records on the accrual basis and the financial statements presented in this report are prepared on that basis. The financial statements present the financial position and changes in financial position of the funds in accordance with U.S. generally accepted accounting principles.

Reporting the Utility's Financial Activities

One of the most important questions asked about the utility's finances is, "Is Indianola Municipal Utilities as a whole better off or worse off as a result of the year's activities?" The Financial Statements reports information which helps answer this question.

Fund Accounting. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Separate funds are maintained for each utility. These funds are classified as business type, or proprietary, funds for reporting purposes.

Financial Statements. The Statement of Net Assets presents information on each utility's assets, liabilities, and equity. Over time, increases or decreases in unrestricted and undesignated net assets may serve as a useful indicator of whether the financial position of the utility is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets details the financial operating results of the utility during the most recent fiscal year, with a comparison to the prior year.

The Statement of Cash Flows provides the net increase or decrease in cash and investments as a result of operating, financing, and investment activities.

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Management Discussion and Analysis (MD&A) - Continued

Analysis of Financial Activities

This section of the MD&A summarizes the financial data contained in the utility's financial statements. It also provides an analysis of the major activities affecting changes from the previous fiscal year.

Statement of Net Position	Year ended June 30,	
	2015	2014
Assets		
Current	\$ 11,649,510	12,467,465
Restricted	649,804	1,721,193
Other	112,532	205,133
Capital	44,013,139	44,485,768
Total Assets	56,424,985	58,879,559
 Deferred outflows of resources	 1,021,742	 314,977
 Liabilities		
Current	3,118,838	2,908,573
Long Term	7,918,114	8,806,010
Total Liabilities	11,036,952	11,714,583
 Deferred inflows of resources	 293,366	 -
 Net Position		
Invested Capital Assets	36,568,947	35,524,758
Restricted	349,835	865,086
Designated	495,937	498,988
Unrestricted & Undesignated	8,701,690	10,591,121
Total Net Position	\$ 46,116,409	47,479,953

As shown above, total utility net assets remained relatively stable, decreasing 2.87% or \$1,363,544. Invested Capital Assets increased by \$1,318,563 as construction projects progressed. The utility also repaid \$1,970,279 of indebtedness in FY 2015.

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Management Discussion and Analysis (MD&A) - Continued

Analysis of Financial Activities - Continued

Net Income	Year ended June 30,	
	2015	2014
Operating revenues		
Sales of electricity	\$ 11,923,821	12,168,779
Electrical capacity contract fees	531,403	532,920
Electrical transmission revenue	500,323	544,971
Sales of water	2,162,818	2,294,079
Fiber communications rental fees	278,512	236,483
Other	163,043	243,185
Total operating revenue	15,559,920	16,020,417
Operating expenses		
Electric utility	12,638,569	11,107,520
Water utility	1,372,897	1,488,732
Fiber communications utility	34,552	61,069
Administrative and general	1,311,433	1,383,717
Transfer to city for Clerk's operations	341,900	316,600
Transfer to city in lieu of property taxes	645,400	609,500
Total operating expenses	16,344,751	14,967,138
Income from operations	(784,831)	1,053,279
Nonoperating revenue (expenses)		
Revenue	474,250	389,139
Expenses	(196,110)	(437,011)
Net Income (Loss)	\$ (506,691)	1,005,407

Income from operations decreased by \$1,512,098. This was due to a combination of higher cost of power in the electrical utility offset by the lagging cost of power adjustment revenue.

Budgetary Highlights

The board of trustees annually adopts a budget for all funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated function level (i.e. proprietary) for the city as a whole, not at the fund or fund type level. Notice is given and a public hearing is held on the budget. The budget may be amended during the year utilizing similar statutorily prescribed procedures. None of the amendments made, if any, negatively affect the following year's budget.

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Management Discussion and Analysis (MD&A) - Continued

Budgetary Highlights - Continued

Information pertaining to budgetary to actual receipts, disbursements, and changes in balances is provided in the financial statements on a cash basis.

Capital Asset and Debt Administration

The utility issued no additional debt during the fiscal year.

The utility pledges electric rates to be sufficient to pay its pro-rata share of outstanding debt obligations of the Municipal Energy Agency of Nebraska under its wholesale energy contract.

The utility's bond rating remained A2 (Moody's) and A+ (S&P).

	Outstanding Debt at	
	Year ended June 30,	
	<u>2015</u>	<u>2014</u>
Electric utility		
Revenue bonds	\$ 6,941,000	7,960,000
Water utility		
Revenue bonds	545,000	815,000
General Obligation bonds (issued by city)	782,300	937,300
Communications utility	-	-
 Total	 <u>\$ 8,268,300</u>	 <u>9,712,300</u>
 Internal loan from Electric utility to Water utility	 <u>\$ 1,256,905</u>	 <u>1,783,184</u>

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Management Discussion and Analysis (MD&A) - Continued

Economic Factors and Next Year's Budgets and Rates

Local economy. The City of Indianola currently enjoys a favorable economic environment and local indicators point to continued moderate growth. The projection in 2015 is for Indianola to grow to a population of approximately 15,500, which represents an increase of 5% from the 2010 census. Although a primarily residential community, the varied nature of the educational, light manufacturing, agriculture services, and retail sectors of the local economy provides relative employment stability. Close proximity to the Des Moines metro area, the state capital with a combined population of approximately 460,000, provides employment for approximately 60% of the available workforce. Over the past 7 years, retail sales have grown at an annual average of over 1.5% and new single-family dwellings have been constructed at an average annual rate in excess of 50 units.

The region (which includes the City of Indianola and the surrounding unincorporated area within Warren County) has a moderate growth employment outlook over the next several years. New commercial construction is occurring along the four-lane highway between the City of Indianola and the Des Moines metropolitan area. A four-lane bypass to the south of the Des Moines metro, completed in 2002, provides increased commercial development opportunities for the community as it improved traffic flow from Indianola to the western Des Moines suburbs and the interstate highway system. The utility makes annual financial commitments to the Indianola Development Corporation and Warren County Economic Development Corporation, both non-related entities to the city, to support economic development in the region. The utility also offers its own revolving loan program to spur economic development and participates in the Choose Des Moines Communities program of the Greater Des Moines Partnership.

Long-term financial planning. The utility annually adopts a 5-year capital improvement budget that prioritizes foreseen projects. Those with potential long-term significant impacts to the cash balances and financial operations of the utility are:

- Phase II of the long-term electric underground conversion project. Additional debt of \$5 million can be structured within current electric rates. It is anticipated this would be issued within 3-5 years.
- Water main replacements estimated at \$500,000 using available cash in excess of the utility's reserve policy.
- Construction of additional fiber optic trunk lines within the next 5 years (amount dependent upon opportunities to obtain adequate financial returns on investment).

Potential regulatory changes over the next 3-5 years with the most fiscal impact is climate control legislation and renewable energy purchasing requirements. Both could increase wholesale energy purchase costs per kwh. However, the cost of energy adjustment could be imposed to recover unanticipated costs without the need for board action.

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Management Discussion and Analysis (MD&A) - Continued

Economic Factors and Next Year's Budgets and Rates - Continued

The utility has hedged these risks by purchasing 11.5% of its wholesale supply from alternative energy sources. New alternative supplies that would be required could be at a much higher price. Regulations could also cause higher average prices for conventional energy. The landfill gas project is structured such that higher daily prices benefit the utility.

Budgets and Rates. Indianola Municipal Utilities maintain increased rates 7% on December 1, 2015 and has voted to increase rates an additional 7% on December 1, 2016. These annual rate increase are expected to fund capital projects and to pay for projected wholesale energy costs. Water rates remained stable. The communications utility entered into a new agreement with its private partner to begin receiving that offset debt carrying costs.

Requests for Information

This financial report is designed to provide a general overview of Indianola Municipal Utilities' finances for all those with an interest in the utility's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance or to the City Clerk, who serves as the Secretary of the Board of Trustees. Their offices are located at 110 N. First St., PO Box 299, Indianola, IA 50125 with a telephone number of 515-961-9410.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Statement of Net Position
June 30, 2015 and 2014

ASSETS	<u>2015</u>	<u>2014</u>
Current assets		
Cash and investments	\$ 6,693,399	6,964,641
Accounts receivable - customers	2,727,303	2,799,407
Other accounts receivable	-	20,175
Accrued interest receivable	26,817	34,521
Inventories	2,109,390	2,556,854
Receivable from the City of Indianola within one year	17,601	16,867
Promissory note receivable within one year	75,000	75,000
Total current assets	<u>11,649,510</u>	<u>12,467,465</u>
Restricted assets - cash and investments		
Electric revenue note and interest sinking fund	278,962	163,200
Electric revenue note debt service reserve fund	-	979,000
Electric revenue note improvement fund	-	207,691
Water revenue bond and interest sinking fund	160,842	161,302
Water revenue bond debt service reserve fund	135,000	135,000
Water revenue bond water improvement fund	75,000	75,000
	<u>649,804</u>	<u>1,721,193</u>
Other assets		
Receivable from the City of Indianola after one year	37,532	55,133
Promissory note receivable after one year	75,000	150,000
	<u>112,532</u>	<u>205,133</u>
Capital assets		
Electric utility plant and equipment, net of accumulated depreciation of \$24,936,529 (2014 - \$25,530,981)	29,925,828	30,162,033
Water utility plant and equipment, net of accumulated depreciation of \$11,225,369 (2014 - \$10,647,227)	13,995,902	14,214,628
Fiber communications utility plant and equipment, net of accumulated depreciation of \$808,301 (2014 - \$790,603)	91,409	109,107
	<u>44,013,139</u>	<u>44,485,768</u>
Total assets	<u>\$ 56,424,985</u>	<u>58,879,559</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension related deferred outflows	\$ 178,390	-
Deferred charges	300,668	314,977
Deferred outflows on advanced refunding of debt	542,684	-
Total deferred outflows	<u>\$ 1,021,742</u>	<u>314,977</u>

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Statement of Net Position - Continued
June 30, 2015 and 2014

LIABILITIES	<u>2015</u>	<u>2014</u>
Current liabilities		
Accounts payable	\$ 1,753,759	1,672,847
Wages and benefits payable	218,558	215,543
Sales tax payable	644	248
Deferred rental fees	6,667	7,369
Accrued interest payable	1,241	1,459
General obligation bonds payable within one year	155,000	155,000
Total current liabilities	<u>2,135,869</u>	<u>2,052,466</u>
Current liabilities payable from restricted assets		
Accrued interest payable	29,969	46,107
Electric revenue capital loan notes and bonds payable within one year	683,000	540,000
Water revenue refunding capital loan notes and bonds payable within one year	270,000	270,000
Current liabilities payable from restricted assets	<u>982,969</u>	<u>856,107</u>
Noncurrent liabilities		
Net pension liability	769,238	-
Electric revenue capital loan notes and bonds payable after one year (including unamortized premium of \$0 (2014 - \$74,154))	6,258,000	7,494,154
General obligation bonds payable after one year (net of unamortized discount of \$12,206 (2014 - \$16,452))	615,094	765,848
Water revenue refunding capital loan notes and bonds payable after one year (including of unamortized premium of \$782 (2014 - \$1,008))	275,782	546,008
Total noncurrent liabilities	<u>7,918,114</u>	<u>8,806,010</u>
Total liabilities	<u>\$ 11,036,952</u>	<u>11,714,583</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenues		
Pension related deferred inflows	\$ 293,366	-
NET POSITION		
Net investment in capital assets	\$ 36,568,947	35,524,758
Restricted for debt service	274,835	582,395
Restricted for electric utility improvements	-	207,691
Restricted for water utility improvements	75,000	75,000
Unrestricted		
Designated for payment of insurance coverage deductibles	16,056	20,827
Designated for economic development revolving loan fund	479,881	478,161
Undesignated	8,701,690	10,591,121
Total unrestricted	<u>9,197,627</u>	<u>11,090,109</u>
Total net position	<u>\$ 46,116,409</u>	<u>47,479,953</u>

See accompanying notes to financial statements.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Statement of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating revenues		
Sales of electricity	\$ 11,923,821	12,168,779
Sales of water	2,162,818	2,294,079
Fiber communications rental fees	278,512	236,483
Capacity contract fees	531,403	532,920
Transmission revenue	500,323	544,971
Other	163,043	243,185
Total operating revenues	<u>15,559,920</u>	<u>16,020,417</u>
 Operating expenses		
Electric utility		
Purchased energy	9,642,173	8,254,437
Plant operation and maintenance	332,790	379,986
Distribution operation and maintenance	1,193,649	1,117,741
Transmission operation and maintenance	127,323	11,708
Depreciation and amortization	1,342,634	1,343,648
Water utility		
Plant operation and maintenance	548,082	575,122
Distribution operation and maintenance	246,673	341,238
Depreciation and amortization	578,142	572,372
Fiber communications utility		
Operation and maintenance	16,854	43,371
Depreciation and amortization	17,698	17,698
Administrative and general	1,311,433	1,383,717
Transfer to city for Clerk's operations	341,900	316,600
Transfer to city in lieu of property taxes	645,400	609,500
Total operating expenses	<u>16,344,751</u>	<u>14,967,138</u>
 Income (loss) from operations	<u>(784,831)</u>	<u>1,053,279</u>

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Statement of Revenues, Expenses and Changes in Net Position - Continued
Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Nonoperating revenues (expenses)		
Investment income	141,435	142,487
Connection fees	53,205	56,442
Gain (loss) on sale or transfer of capital assets	(2,482)	(96,829)
Revenue refunding capital loan note issuance costs	(93,519)	-
Other	279,610	190,210
Interest expense	(100,109)	(340,182)
	<u>278,140</u>	<u>(47,872)</u>
 Net income (loss)	 (506,691)	 1,005,407
 Capital contributions from customers and developers	 101,050	 61,875
Capital contributions from water main connection fees	<u>2,832</u>	<u>3,468</u>
Change in net position	(402,809)	1,070,750
 Net position, beginning of year, as restated	 <u>46,519,218</u>	 <u>46,409,203</u>
 Net position, end of year	 <u>\$ 46,116,409</u>	 <u>47,479,953</u>

See accompanying notes to financial statements.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Statement of Cash Flows
Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Cash received from customers	\$ 15,577,650	15,645,096
Cash paid to suppliers	(11,698,666)	(11,031,628)
Cash paid to employees	(2,164,189)	(2,084,118)
Other nonoperating fees and revenues received	<u>332,815</u>	<u>246,652</u>
Net cash provided by operating activities	<u>2,047,610</u>	<u>2,776,002</u>
 Cash flows from capital and related financing activities		
Purchases and construction of electric utility plant and equipment	(1,059,676)	(1,984,071)
Purchases and construction of water utility plant and equipment	(309,616)	(439,323)
Proceeds from sale of capital assets	2,014	-
Revenue refunding capital loan note issued	7,241,000	-
Deferred outflows on advanced refunding of debt	(556,481)	-
Payment of revenue refunding capital loan note issuance costs	(93,519)	-
Water main connection fees received	2,832	3,468
General obligation bond principal paid	(155,000)	(154,400)
General obligation bond interest paid	(17,500)	(19,099)
Electric revenue capital loan notes and bonds principal paid	(8,260,000)	(1,040,000)
Electric revenue capital loan notes and bonds interest paid	(147,542)	(307,700)
Water revenue refunding bonds principal paid	(270,000)	(270,000)
Water revenue refunding bonds interest paid	<u>(7,760)</u>	<u>(9,920)</u>
Net cash used by capital and related financing activities	<u>(3,631,248)</u>	<u>(4,221,045)</u>
 Cash flows from investing activities		
Principal payment received from the City of Indianola	16,867	20,000
Promissory note principal received	75,000	75,000
Investment income received	<u>149,140</u>	<u>134,644</u>
Net cash provided by investing activities	<u>241,007</u>	<u>229,644</u>
 Net increase (decrease) in cash and investments	(1,342,631)	(1,215,399)
Cash and investments, beginning of year	<u>8,685,834</u>	<u>9,901,233</u>
 Cash and investments, end of year	<u>\$ 7,343,203</u>	<u>8,685,834</u>

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Statement of Cash Flows - Continued
Years Ended June 30, 2015 and 2014

	2015	2014
Reconciliation of income (loss) from operations to net cash provided		
by operating activities		
Income (loss) from operations	\$ (784,831)	1,053,279
Adjustments		
Other nonoperating fees and revenues	332,815	246,652
Depreciation and amortization	1,938,474	1,933,718
(Increase) decrease in accounts receivable	92,279	(254,150)
Decrease in inventories	447,464	66,271
Increase (decrease) in accounts, wages and benefits, and sales tax payable	84,323	45,911
Increase in pension related deferred outflows	(65,049)	-
Decrease in deferred charges	14,309	(314,977)
Increase in net pension liability	(304,838)	-
Increase in pension related deferred inflows	293,366	-
Decrease in deferred rental fees	(702)	(702)
	\$ 2,047,610	2,776,002
 Noncash capital and related financing and investing activities		
Developer contributions of electric utility plant and equipment	\$ 51,250	61,875
Developer contributions of water utility plant and equipment	49,800	-
Land transferred for receivable from the City of Indianola	-	92,000

See accompanying notes to financial statements.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2015 and 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Reporting Entity - The Indianola Municipal Utilities is a component unit of the City of Indianola, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Utilities are governed by a five member board appointed by the City Council, which exercises oversight responsibility under this criteria.
- B. Basis of Presentation - The accompanying financial statements present the financial position, changes in financial position and cash flows of the Indianola Municipal Utilities of the City of Indianola, Iowa. These financial statements are not intended to present the financial position of the City of Indianola, Iowa, and the changes in its financial position and cash flows of its proprietary fund types.

The Statement of Net Position presents the Utilities' assets and liabilities, with the difference reported as net position. Net position is reported in the following categories.

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

- C. Basis of Accounting - The accounting records of the Utilities are maintained on a cash basis. The accompanying financial statements have been prepared, after giving effect to all material adjustments including amounts due from utility customers and due to suppliers of goods and services, to reflect the account balances and results of operations on the accrual basis.

The Utilities report their financial activity in accordance with all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as applicable Financial Accounting Standards Board (FASB) pronouncements unless those pronouncements conflict with or contradict GASB pronouncements.

CITY OF INDIANOLA, IOWA
 INDIANOLA MUNICIPAL UTILITIES
 Notes to Financial Statements - Continued
 June 30, 2015 and 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Outflows of Resources, and Net Position - The following accounting policies are followed in preparing the Statement of Net Position:

Cash and Investments and Interest Income - Cash balances available from each of the funds of the City of Indianola, Iowa are pooled for investment and cash management purposes. Investments purchased by the pool are stated at cost or amortized cost. Interest earned on pooled investments is allocated monthly on the basis of the funds' ending cash and investment balances. Because the cash of Indianola Municipal Utilities is deposited with or withdrawn from the cash and investment pool without restriction the allocated share of the pool has been treated as a cash equivalent in the accompanying statement of cash flows.

Inventories - Inventories, which consist of fuel oil and supplies, are stated at the lower of cost (first-in, first-out basis) or net realizable value.

Restricted Assets - Funds set aside for payment of Enterprise Fund revenue bonds are classified as restricted assets since their use is restricted by applicable bond indentures.

Capital Assets - Capital assets which include property, plant, and equipment, stated at original cost. Depreciation expense is computed using the straight-line method and estimated useful lives as follows:

Electric utility	
Power plant building	50 years
Generating units	25 years
Transmission and distribution systems	40 years
Vehicles	10 years
Computer equipment	5 years
Water utility	
Buildings and plant	40 years
Wells and towers	30-50 years
Mains and hydrants	50 years
Meters	20 years
Machinery and equipment	15 years
Vehicles	10 years
Fiber communications utility	
Distribution and connection systems	10 years

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2015 and 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Outflows of Resources, and Net Position- Continued

Deferred Outflows of Resources – Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer’s reporting period, deferred cost of energy adjustments, and outflows from debt defeasance.

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees’ Retirement System (IPERS) and additions to/deductions from IPERS’ fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources – Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources the fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of receivables not collected within sixty days after year end.

Deferred inflows of resources in the Statement of Net Position consist of the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2015 and 2014

2. UTILITY PLANT AND EQUIPMENT

The following is a summary of utility plant and equipment in service as of June 30, 2015 and 2014:

	2015	2014
Electric utility		
Land	\$ 359,207	359,207
Service territory	446,000	446,000
Generating units	15,161,374	15,161,374
Transmission and distribution systems	34,063,379	34,967,924
Power plant building	2,120,678	2,120,678
Computer equipment	403,968	403,968
Equipment	828,257	751,238
Vehicles	1,479,494	1,482,625
	\$ 54,862,357	55,693,014
 Water utility		
Land	\$ 227,441	227,441
Service territory	328,412	328,412
Buildings and plant	7,681,305	7,595,528
Wells and towers	4,753,807	4,692,597
Mains, hydrants and meters	11,356,025	11,193,276
Machinery and equipment	598,513	598,512
Vehicles	275,768	226,089
	\$ 25,221,271	24,861,855
 Fiber communications utility		
Distribution and connection systems	\$ 899,710	899,710

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2015 and 2014

3. DEFERRED CHARGES

In May 2014 the Board of Trustees determined a cost of energy adjustment would be imposed under the provisions of its electric rate resolution. The initial costs to be recovered are the sum of the purchased energy adjustments assessed from July 2013 through March 2014 by IMU's wholesale electric power supplier under the terms of its power supply contract. The charges are expected to be recovered over a one year period as an additional per kilowatt hour surcharge to all utility customers. Each quarter actual energy costs charged by IMU's wholesale electric power supplier in excess of the base energy costs included in the rate resolution are added to deferred charges and surcharges collected from customers are subtracted from deferred charges to determine the per kilowatt hour surcharge to be imposed until all excess energy costs are recovered.

4. TRANSFER OF LAND

In September 2013 the Board of Trustee transferred management and control of land no longer needed in its water utility operations to the City of Indianola in exchange for \$92,000 plus interest, payable in annual installments of \$20,000, including interest, through September 2017.

Maturities of the receivable from the City of Indianola as of June 30, 2015 were as follows:

Year ending June 30,	
2016	\$ 17,601
2017	18,366
2018	19,166
	<u>\$ 55,133</u>

5. PROMISSORY NOTE

The Utility has a promissory note receivable in connection with the Utility's revolving loan fund. Principal, with no interest thereon, is payable annually from October 2012. Principal not paid when due shall accrue interest at the rate of 8% per annum.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2015 and 2014

5. PROMISSORY NOTE-Continued

Promissory note maturities are as follows as of June 30, 2015:

Year ending June 30,	
2016	\$ 75,000
2017	75,000
	<u>\$ 150,000</u>

6. REVENUE CAPITAL LOAN NOTES AND BONDS PAYABLE

In March 2015 the Utilities issued \$7,241,000 of Electric Revenue Refunding Capital Loan Notes, with interest rate of 2.6%, for a current refunding of a portion of revenue capital loan notes issued June 2010 and revenue bonds issued December 2011. The Utilities refunded the capital loan notes and revenue bonds to reduce its total debt service payments by approximately \$1,453,200 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$1,261,300.

During the year ended June 30, 2015, the Utilities entered into an escrow agreement whereby the proceeds from the refunding capital loan notes were converted into U.S. Securities. These securities and additional cash were placed in an escrow account for the express purpose of paying the principal and interest on the refunded revenue bonds and notes as they become due. After the principal and interest on all the outstanding bonds and notes have been paid, the remaining funds in the escrow account, together with any interest thereon, shall be returned to the Utilities. The transactions, balances and liabilities of the escrow account are not recorded by the Utilities. The amount of the refunded bonds and notes was considered extinguished and, therefore, excluded from long-term debt was \$7,960,000 at June 30, 2015.

The reacquisition price exceeded the net carrying amount of the old debt by \$556,481. This amount, the deferred outflows on advanced refunding of debt, is being amortized over the remaining life of the new debt issued, which is equal to the life of the refunded debt.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2015 and 2014

6. REVENUE CAPITAL LOAN NOTES AND BONDS PAYABLE- Continued

The Utilities have pledged future electric customer receipts, net of specified operating disbursements, to repay \$7,241,000 of Electric Revenue Refunding Capital Loan Notes issued in March 2015. Proceeds from the notes refunded \$6,490,000 of Electric Revenue Capital Loan Notes issued in June 2010 and \$1,470,000 of Electric Revenue Bonds issued in December 2011.

The notes are payable solely from electric net revenues, as defined, and are payable through 2025. Annual principal and interest payments on the notes are expected to require less than 100% of net revenues. The total principal and interest remaining to be paid on the notes is \$7,889,246. For the current year, principal and interest paid and total net loss were \$318,304 and \$1,192,962, respectively.

The resolution providing for the issuance of the revenue refunding capital loan notes include the following provisions:

- a. The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- b. Sufficient monthly transfers shall be made to a separate electric revenue sinking account within the Enterprise Fund for the purpose of making the note principal and interest payments when due.
- c. All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to retire any subordinate obligations, to pay for extraordinary repairs or replacements to the electric system, or to pay or redeem any notes or bonds, and then can be used for any lawful purpose.

Revenue capital loan note and bond debt service requirements are as follows as of June 30, 2015:

Year Ending June 30,	Principal	Interest	Total
2016	\$ 683,000	180,466	863,466
2017	700,000	162,708	862,708
2018	718,000	144,508	862,508
2019	737,000	125,840	862,840
2020	756,000	106,678	862,678
2021-2025	<u>3,347,000</u>	<u>228,046</u>	<u>3,575,046</u>
	<u>\$ 6,941,000</u>	<u>948,246</u>	<u>7,889,246</u>

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2015 and 2014

6. REVENUE CAPITAL LOAN NOTES AND BONDS PAYABLE- Continued

In December 2011 the Utilities issued \$1,350,000 of Water Revenue Refunding Bonds, with interest rates ranging from .5% to 1.3%, for a current refunding of a portion of refunding capital loan notes issued August 2004. The Utilities refunded the capital loan notes to reduce its total debt service payments by approximately \$91,800 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$88,400.

The Utilities has pledged future water customer receipts, net of specified operating disbursements, to repay \$1,350,000 of Water Revenue Refunding Bonds issued in December 2011. Proceeds from the notes provided financing for the current refunding of a portion of the refunding capital loan notes issued August 2004. The notes are payable solely from water net revenues, as defined, and are payable through 2017. Annual principal and interest payments on the notes are expected to require less than 50% of net receipts. The total principal and interest remaining to be paid on the notes is \$551,848. For the current year, principal and interest paid and total net revenues were \$277,760 and \$474,244, respectively.

The resolution providing for the issuance of the revenue bonds include the following provisions:

- a. The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- b. Sufficient monthly transfers shall be made to a separate water revenue sinking account within the Enterprise Fund for the purpose of making the note principal and interest payments when due.
- c. Additional monthly transfers of 25% of the amount required to be deposited in the water revenue sinking account shall be made to a separate water revenue debt service reserve account until specific minimum balances have been accumulated in the accounts. Use of funds is restricted to funding any deficit in the sinking account.
- d. All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to retire any subordinate obligations, to pay for extraordinary repairs or replacements to the water system, or to pay or redeem any bonds, and then can be used for any lawful purpose.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2015 and 2014

6. REVENUE CAPITAL LOAN NOTES AND BONDS PAYABLE- Continued

Revenue refunding bond debt service requirements were as follows as of June 30, 2015:

Year ending June 30,	Principal	Interest	Total
2016	\$ 270,000	5,060	300,617
2017	275,000	1,788	298,030
	<u>\$ 545,000</u>	<u>6,848</u>	<u>551,848</u>

7. GENERAL OBLIGATION BONDS PAYABLE

In January 2011 the City issued \$3,915,000 of General Obligation Refunding Bonds for a crossover refunding of a portion of the General Obligation Bonds dated October 2003. Although the bonds are a general obligation of the City and the City has authority to levy property taxes to pay the bonds and related interest, as payments come due, it is the intention of the City Council that the payments of \$735,000 of bond principal and related interest be financed by the operations of the Municipal Water Utility. Accordingly, that portion of the bonds is reported as a liability and the interest payments are reported as an expense of the Utilities in these financial statements. Municipal Water Utility principal payments are due on the notes in the amounts of \$100,000 to \$115,000 from June 1, 2012 through June 1, 2018. Interest on the notes at rates of 1.0% to 2.0% per annum is due semiannually beginning December 1, 2011.

In May 2012 the City issued \$3,875,000 of General Obligation Bonds, a portion of which was used to finance water main improvements. Although the bonds are a general obligation of the City and the City has authority to levy property taxes to pay the bonds and related interest, as payments come due, it is the intention of the City Council that the payments of \$572,700 of bond principal and related interest be financed by the operations of the Municipal Water Utility. Accordingly, that portion of the bonds is reported as a liability and the interest payments are reported as an expense of the Utilities in these financial statements. Municipal Water Utility principal payments are due on the notes in the amounts of \$11,000 to \$52,500 from June 1, 2013 through June 1, 2025. Interest on the notes at rates of .5% to 2.4% per annum is due semiannually beginning December 1, 2012.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2015 and 2014

7. REVENUE CAPITAL LOAN NOTES AND BONDS PAYABLE- Continued

The Municipal Water Utility portion of general obligation bond debt service requirements are as follows as of June 30, 2015:

Year ending June 30,	Principal	Interest	Total
2016	\$ 155,000	14,900	169,900
2017	145,800	12,300	158,100
2018	146,600	9,800	156,400
2019	47,300	6,700	54,000
2020	48,000	6,000	54,000
2021-2025	239,600	15,700	255,300
	<u>\$ 782,300</u>	<u>65,400</u>	<u>847,700</u>

8. COMPENSATED ABSENCES

Indianola Municipal Utilities employees accumulate vacation hours, compensating time off and sick leave for subsequent use. Unused vacation hours and compensating time off are payable upon termination, retirement or death. These amounts are included in wages and benefits payable as of June 30, 2015 and 2014. Accrued sick leave benefits as of June 30, 2015 of approximately \$283,048 (2014 - \$333,727) are payable only when used and have not been accrued.

9. PENSION PLAN

Plan Description - IPERS membership is mandatory for employees of the Utilities, except for those covered by another retirement system. Employees of the Utilities are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2015 and 2014

9. PENSION PLAN - Continued

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2015 and 2014

9. PENSION PLAN - Continued

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the Utilities contributed 8.93 percent for a total rate of 14.88 percent.

The City's contributions to IPERS for the year ended June 30, 2015 were \$134,100.

Collective Net Pension Liabilities, Collective Pension Expense, and Collective Deferred Outflows of Resources and Collective Deferred Inflows of Resources Related to Pensions - At June 30, 2015, the Utilities' liability for its proportionate share of the collective net pension liability totaled \$769,238. The collective net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date. The Utilities' proportion of the collective net pension liability was based on the Utilities' share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the Utilities' proportion was .0193963 percent, which was an increase of .0006896 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Utilities recognized pension expense of \$57,951. At June 30, 2015, the Utilities reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2015 and 2014

9. PENSION PLAN - Continued

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 8,360	-
Changes of assumptions	33,948	-
Deferred outflows of resources from proportion change	1,609	-
Net difference between projected and actual earnings on pension plan investments	-	293,366
Utilities' contributions subsequent to the measurement date	134,473	-
Total	\$ 178,390	293,366

\$134,473 reported as deferred outflows of resources related to pensions resulting from the Utilities contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	
2016	\$ (63,081)
2017	(63,081)
2018	(63,080)
2019	(63,080)
2020	2,873
	\$ (249,449)

There were no non-employer contributing entities at IPERS.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2015 and 2014

9. PENSION PLAN - Continued

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00 percent per annum
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50 percent, compounded annually, net of investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	<u>100%</u>	

CITY OF INDIANOLA, IOWA
 INDIANOLA MUNICIPAL UTILITIES
 Notes to Financial Statements - Continued
 June 30, 2015 and 2014

9. PENSION PLAN - Continued

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Utilities will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Utilities' Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Utilities' proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Utilities' proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Utilities' proportionate share of the net pension liability	\$1,453,453	\$769,238	\$ 191,689

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

10. RISK MANAGEMENT

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 727 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2015 and 2014

10. RISK MANAGEMENT - Continued

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level by the Board not to exceed 300% of basis rate.

The Pool also provides property coverage. Members who elect such coverage make annual property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Indianola Municipal Utilities' property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The Utilities' annual contributions to the Pool for the year ended June 30, 2015 were \$78,569 (2014 - \$123,969).

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred.

The Utilities do not report a liability for losses in excess of reinsurance or excess risk - sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2015, no liability has been recorded in the Utilities financial statements. As of June 30, 2015, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2015 and 2014

10. RISK MANAGEMENT - Continued

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the refunded to the withdrawing member.

Indianola Municipal Utilities is a member of the Iowa Municipalities Workers' Compensation Association (the "Association"). The Association is governed by a board of directors elected by representatives of the governing bodies of each participating governmental jurisdiction. Indianola Municipal Utilities has executed a Worker's Compensation Coverage Agreement with the Association which extends through June 30, 2015 and has authorized the Association to issue general obligation bonds to provide funds with which to pay claims. During the year ended June 30, 2015, Indianola Municipal Utilities paid workers' compensation insurance premiums of \$36,561 (2014 - \$31,312) to the Association.

11. JOINTLY GOVERNED ORGANIZATIONS

The Indianola Municipal Utilities is a member-owner of the Municipal Energy Agency of Nebraska (MEAN), a joint action agency organized as a body corporate and politic under the laws of the State of Nebraska. MEAN's Power Supply System consists of ownership and contractual rights and interests in various electric generating and transmission resources and supplies. MEAN uses these to provide wholesale power supply, transmission, and ancillary services to its 65 participating municipal utilities. Each MEAN participant has entered into the Electrical Resources Pooling Agreement (ERPA) with MEAN, which provides for various service schedules.

IMU elected in 2009 to become a Total Requirements Participant and as such receives all power and energy from MEAN, and entered into Service Schedule M of the ERPA. As such, IMU has agreed to purchase its power and energy at rates sufficient (together with other MEAN revenues) to enable MEAN to pay all its net costs of MEAN's Power Supply System. Annual costs to be recovered and associated rates are evaluated annually by the MEAN Board of Directors. If imposed, IMU is also subject to a Purchased Energy Adjustment clause based on MEAN's actual cost of energy compared to those budgeted & collected through base rates during its fiscal year of April 2013 - March 2014.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2015 and 2014

11. JOINTLY GOVERNED ORGANIZATIONS - Continued

IMU's pro-rata share of net at-risk annual costs borne by Schedule M participants is approximately 9.5% in 2014 (2013 – 9.3%), subject to annual fluctuation based on demand and energy, and are explicitly categorized as IMU annual operating expenditures. Long-term Power Supply Contracts are currently set to expire in 2041, after the final maturity of MEAN's 2008 Series A Bonds in 2039. IMU's obligation to MEAN beyond that date is contingent on its approval of any new debt to be issued by MEAN with a maturity date beyond that date.

The Indianola Municipal Utilities became a participant in the Central Minnesota Municipal Power Agency (CMMPA) Brookings-Twin Cities Transmission Project (CMMPA-Brookings Project) in 2011. CMMPA is a joint action agency formed under the laws of the State of Minnesota. The CMMPA-Brookings Project consists of 15 municipal utilities that agreed to pay pro-rated annual costs, net of transmission tariff revenue collected, related to CMMPA's fractional assigned ownership of transmission facilities commonly referred to as the CAPX2020 Brookings-Twin Cities Development Project. IMU's Election Share is 3.34% of the CMMPA-Brookings Project, which in total is 3.6% of the total CAPX2020 Brookings-Twin Cities Development Project. Any net costs associated with IMU's participation are explicitly categorized as annual operating expenditures.

12. COMMITMENTS

The Indianola Municipal Utilities have entered into contracts for transmission line relocation, electric underground conversion, a water main improvement project and other projects totaling approximately \$2,160,000. The remaining commitment on these contracts at June 30, 2015 is approximately \$430,700.

13. ACCOUNTING CHANGE/RESTATEMENT

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27 was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2015 and 2014

13. ACCOUNTING CHANGE/RESTATEMENT - Continued

measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Beginning net position for governmental activities was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

	Net Position
Net position June 30, 2014, as previously reported	\$ 47,479,953
Net pension liability at June 30, 2014	(1,074,074)
Change outflows of resources related contributions made after the June 30, 2013 measurement date	113,339
Net position July 1, 2014, as restated	\$ 46,519,218

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Budgetary Comparison Schedule of Receipts, Disbursements
And Changes in Balances – Budget and Actual (Cash Basis)
Required Supplementary Information
Year Ended June 30, 2015

	Actual	Budget Amounts		Final to Actual Variance
		Original	Final	
Receipts				
Use of money and property	\$ 187,872	486,100	472,000	(284,128)
Intergovernmental	-	20,000	20,000	(20,000)
Charges for service	16,280,561	15,723,200	15,550,200	730,361
Special assessments	2,832	-	-	2,832
Miscellaneous	<u>2,091,667</u>	<u>494,100</u>	<u>2,929,300</u>	<u>(837,633)</u>
Total receipts	18,562,932	16,723,400	18,971,500	(408,568)
Disbursements				
Business type activities	<u>18,759,535</u>	<u>15,475,950</u>	<u>19,493,250</u>	<u>733,715</u>
Excess of receipts over (under) disbursements	(196,603)	1,247,450	(521,750)	325,147
Other financing sources (uses)				
Proceeds of debt	-	-	-	-
Sale of capital assets	20,000	-	-	20,000
Operating transfers in (out)	<u>(1,166,028)</u>	<u>(1,219,100)</u>	<u>(1,219,100)</u>	<u>53,072</u>
Total other financing sources (uses)	(1,146,028)	(1,219,100)	(1,219,100)	73,072
Excess of receipts and other financing sources over (under) disbursements and other financing uses	(1,342,631)	28,350	(1,740,850)	398,219
Balances, beginning of year	<u>8,685,834</u>	<u>8,685,834</u>	<u>8,685,834</u>	<u>-</u>
Balances, end of year	<u>\$ 7,343,203</u>	<u>8,714,184</u>	<u>6,944,984</u>	<u>398,219</u>

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Required Supplementary Information –
Budgetary Reporting
Year Ended June 30, 2015

In accordance with the code of Iowa, the Board of Trustees with the approval of the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon classes of disbursements known as functions not by fund. The Utilities' disbursements are budgeted in the business type activities function. During the year, two budget amendments increased budgeted disbursements by \$4,017,300. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2015, disbursements did not exceed the amount budgeted.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Schedule of the Utilities' Proportionate Share of the Net Pension Liability

Last Fiscal Year*

Required Supplementary Information

<u>Iowa Public Employees' Retirement System</u>	<u>2015</u>
Utilities' proportion of the net pension liability	0.0193963%
Utilities' proportionate share of the net pension liability	\$ 769,238
Utilities' covered-employee payroll	\$ 1,501,680
Utilities' proportionate share of the net pension liability as a percentage of its covered-employee payroll	51.23%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

* The amounts presented for each fiscal year were determined as of June 30.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Schedule of Utilities Contributions

Last 10 Fiscal Years

Required Supplementary Information

<u>Iowa Public Employees' Retirement System</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Statutorily required contribution	\$ 134,100	131,492	124,568	111,898
Contributions in relation to the statutorily required contribution	<u>(134,100)</u>	<u>(131,492)</u>	<u>(124,568)</u>	<u>(111,898)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
City's covered-employee payroll	\$1,501,680	1,472,475	1,436,770	1,386,592
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.67%	8.07%

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
93,113	84,649	77,736	69,948	62,106	64,462
<u>(93,113)</u>	<u>(84,649)</u>	<u>(77,736)</u>	<u>(69,948)</u>	<u>(62,106)</u>	<u>(64,462)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
1,339,755	1,272,917	1,224,189	1,156,165	1,080,104	1,121,078
6.95%	6.65%	6.35%	6.05%	5.75%	5.75%

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Notes to Required Supplementary Information –
Pension Liability

Year Ended June 30, 2015

Iowa Public Employees' Retirement System

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Notes to Required Supplementary Information –
Pension Liability

Year Ended June 30, 2015

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.



Shull, Schrum, McClafin & Co., Inc.

certified public accountants

INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Indianola Municipal Utilities
Indianola, Iowa

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the Indianola Municipal Utilities of the City of Indianola, Iowa, as of and for the year ended June 30, 2015, and the related Notes to Financial Statements, and have issued our report thereon dated February 19, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Indianola Municipal Utilities' internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Indianola Municipal Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of the Indianola Municipal Utilities' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses or significant deficiencies in internal control.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Indianola Municipal Utilities' financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of control deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

1111 North Jefferson
Indianola, Iowa 50125
515-961-2571 • Fax 515-961-4253

133 W. Washington
Osceola, Iowa 50213
641-342-2611 • Fax 641-342-2746

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Indianola Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Indianola Municipal Utilities' Responses to Findings

The Indianola Municipal Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings. The Indianola Municipal Utilities' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Utilities' internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Utilities' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Indianola Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Stull, Johnson, McClellan & Co., Inc.

February 19, 2016

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Schedule of Findings

Year ended June 30, 2015

Part I: Findings Related to the Financial Statements:

None

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-15 Certified Budget - Disbursements during the year ended June 30, 2015, did not exceed the amounts budgeted.
- II-B-15 Questionable Disbursements - No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- II-C-15 Travel Expense - No expenditures of Utilities money for travel expenses of spouses of Utilities officials or employees were noted.
- II-D-15 Business Transactions - No business transactions between the Indianola Municipal Utilities officials or employees were noted.
- II-E-15 Bond Coverage - Surety bond coverage of Utilities officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- II-F-15 Trustee Minutes - No transactions were found that we believe should have been approved in the Trustee minutes but were not.
- II-G-15 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy were noted.
- II-H-15 Revenue Bonds and Notes - The requirements of the electric revenue bonds and notes resolutions were met during the year ended June 30, 2015.
- II-I-15 Telecommunications Services - No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.